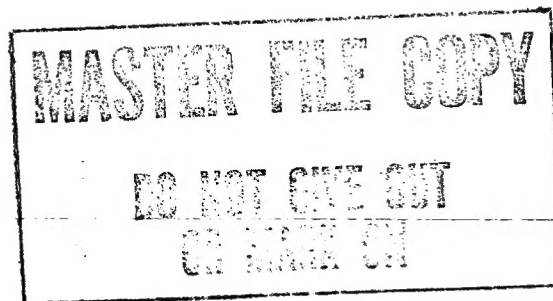




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Libyan-Italian Relations: Qadhafi's Link to Western Europe

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An Intelligence Assessment

DIA review
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State Dept. review completed

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June 1983

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Libyan-Italian Relations: Qadhafi's Link to Western Europe

An Intelligence Assessment

This paper was prepared by [] the
Office of Near East-South Asia Analysis. It was
coordinated with the Directorate of Operations and
the National Intelligence Council. []

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Comments and queries are welcome and may be
directed to the Chief, Arab-Israeli Division, []
[]

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Key Judgments

*Information available
as of 16 May 1983
was used in this report.*

A variety of political, economic, and historical factors have produced a "special relationship" between Libya and Italy. Both countries consider cooperative relations natural and normal, and bilateral links have continued to develop during the 14 years since Qadhafi took power in Libya. We believe that Libyan-Italian relations are likely to remain close despite periodic strains caused by Qadhafi's erratic and sometimes outrageous behavior. Through a combination of threat and enticement, the Libyan leader has managed to forge ties with Italy that are likely to survive even his most severe periods of international isolation.

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Concern about Libya's ability to threaten Italian interests through military and political means has increased in Rome, and we believe that Qadhafi plays on these fears in his efforts to intimidate the Italians. Qadhafi has sought to use ties with Italy to enhance Libyan economic and military strength and to increase Libya's overall influence in Western Europe. Given his past experience in dealing with Italy, where the murder of regime opponents in exile by Libyan assassins had relatively little effect on bilateral relations, Qadhafi probably believes that his freedom of action is greater in Italy than anywhere else in the West. We believe that he will attempt to exploit this advantage wherever possible.

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Trade and commerce have always been important elements of the Libyan-Italian relationship, with Libya supplying oil and an attractive export market to Italy. Italian officials, however, tend to exaggerate the importance of trade ties when justifying Rome's efforts to maintain normal relations with the Qadhafi regime. The current oil glut and Libya's resultant cash shortage probably will lessen the importance of economic relations in the short run, especially until a sizable Libyan debt to several Italian companies is settled. Long-term prospects for strong trade relations are good, however, in part because of Italian involvement in the development of Libyan offshore oilfields that will extend into and past the 1990s.

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One of Qadhafi's goals in pursuing relations with Italy is to decrease American influence and put distance between Italy—and the rest of Western Europe—and the United States. Although his efforts thus far have been notably unsuccessful, they will continue, particularly as the deployment of US cruise missiles in Sicily approaches. The Italians, who worry about possible Libyan reaction to US moves in the Mediterranean, will almost certainly continue to push for greater consultations with the United States about Libya. They probably will also refuse to join in any sanctions against the Qadhafi regime unless Italy or its citizens are directly threatened by Libyan actions.

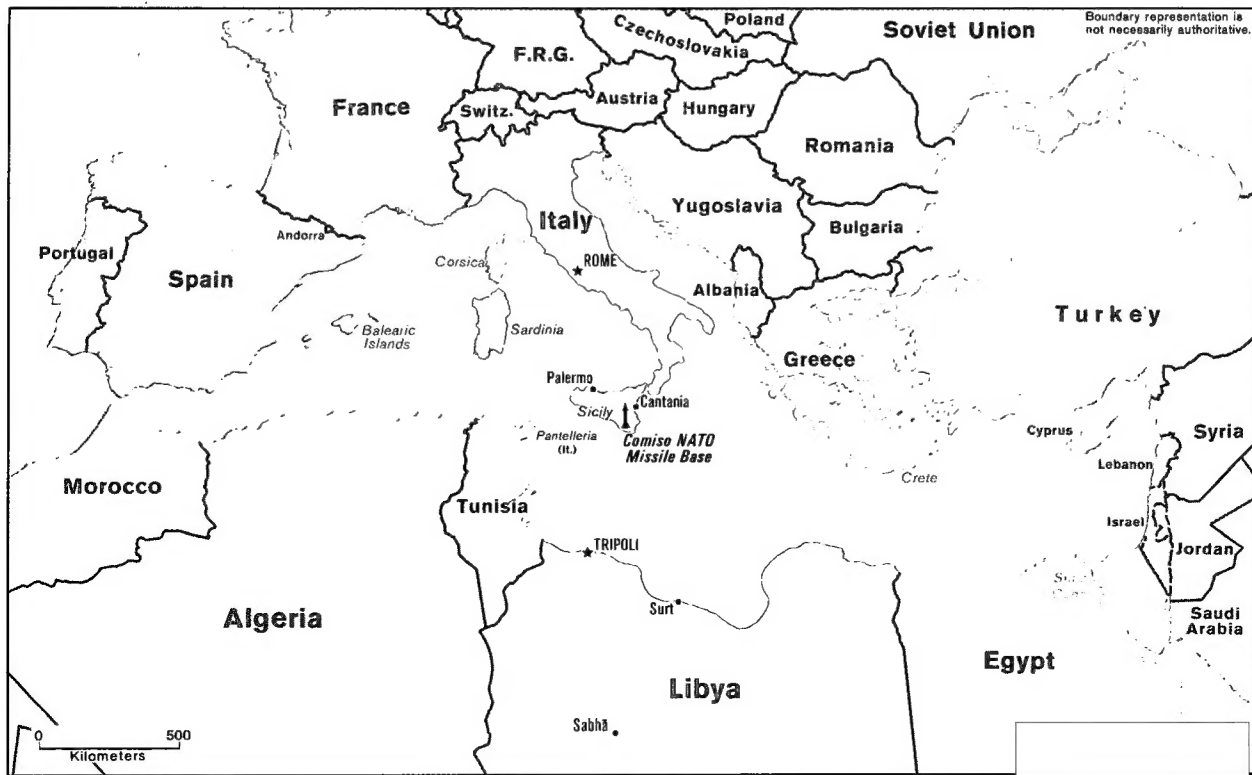
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A Special Relationship

Of all the countries of the Western alliance, none has closer ties with Libya than Italy. Geographical proximity centuries ago brought the two countries together as natural trading partners, but Italy's colonial presence in the first half of this century provided the relationship with unique qualities that have extended to the present. The Italians have always been wary of Mu'ammar Qadhafi but have continued to deal with the mercurial Libyan leader. Commercial relations have flourished, despite some problems, during the years since Qadhafi took power in 1969, with Libya providing both an enticing export market for key Italian industries and a source of oil to meet part of Italy's energy needs. Economics are at the heart of the relationship, but political and security aspects have gained increased prominence in recent years as the radical and sometimes aggressive policies of Qadhafi's regime have added tension to the relationship.

economy, gaining influence in Western Europe, undermining Italy's relations with the United States, and enhancing Libya's military strength.

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In recent years Italian officials have grown increasingly concerned about Libya's capabilities to threaten Italy's security, especially since the Gulf of Sidra incident in 1981, when Libyan and US aircraft engaged in a brief clash. Apparent Libyan incursions into Italian airspace, one near the NATO base at Comiso in August 1982, also have alarmed Italian officials. The buildup of Libya's armed forces, Qadhafi's ability to threaten thousands of Italian workers living in Libya, and Rome's fears of increased Libyan efforts to buy influence in Italy have combined to produce what some Italians call "the threat from the south."

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Natural Trade Partners

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We believe that Qadhafi uses both positive and negative leverage in dealing with Italy in a deliberate and consistent pattern of intimidation. The Libyan leader has long displayed a penchant for verbal bullying and has discovered that such tactics are sometimes useful in achieving his goals. The Libyans have committed outrageous acts in Italy with little resulting damage to overall relations; Qadhafi literally has gotten away with murder of his own nationals on Italian soil.

Geography has long made commerce a central and enduring aspect of Libyan-Italian relations. "Peaceful economic penetration" of Libya began shortly after Italy emerged as a united state in the late 19th century, several decades before Italy's full colonization of Libya was completed in 1931. By the 1970s Italy's growing petroleum needs combined with Libya's desire for rapid development to produce large-scale trade between the two countries.

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In our judgment, the Italians draw a line at which Qadhafi's actions become unacceptable—for example, if Italian nationals or Western diplomats in Rome are physically threatened. But the intricate nature of Rome's relationship with Tripoli produces a tolerance for Qadhafi significantly greater than that found in other Western nations. We believe Italian willingness to ignore much of Qadhafi's troublesome behavior and Italy's susceptibility to various forms of Libyan pressure have encouraged the Libyan leader to employ a carrot-and-stick approach with Italy as he pursues the principal goals of developing the Libyan

This trading relationship frequently is cited by Italian officials as a factor in their inability to take a harder line with the Qadhafi regime. The US Embassy in Rome recently noted that the Libyans also stress this theme, loudly proclaiming that billions of dollars for Italy are at stake in the relationship. Aggregate trade data, however, indicate that importance of overall trade is exaggerated by the Italian side (see table). The Libyan market accounted for only 3 percent of Italy's total exports in 1982, and, with its oil revenues down at least in the short run, Libya has become less attractive for some Italian exporters.

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Libyan-Italian Trade: 1975-82Million US \$
(except where noted)

	1975	1976	1977	1978	1979	1980	1981	1982
Libyan exports to Italy (f.o.b.) ^a	1,334	1,606	1,636	2,156	2,353	3,154	3,034	2,497
Percent of total Libyan exports	21.5	18.7	15.9	22.2	15.4	13.8	19.9	18.5
Percent of Italian imports (f.o.b.)	3.2	3.8	3.2	3.1	3.3	3.5	3.7	3.1
Imports from Italy (f.o.b.) ^b	831	739	939	1,000	1,920	2,530	4,280	2,114
Percent of total Libyan imports	26.0	25.5	27.6	24.1	26.8	28.3	30.8	27.8
Percent of Italian exports (f.o.b.)	2.4	2.0	2.1	1.8	2.7	3.3	5.7	2.9

^a Dominated by crude petroleum.^b Mostly manufactured items (semifinished and construction goods, machinery, and transportation equipment). Figures exclude military trade.

In certain areas of trade, however, Libya is disproportionately important to many Italian companies, providing advantages that Qadhafi has been quick to exploit. Last year, for example, when Libya's outstanding debt to Italian companies reached \$1 billion, the US Embassy reported that the Italians decided to accept Libyan arguments that stressed the need for more oil purchases to allow Libya to meet outstanding payments. The two countries concluded a "technical agreement" that obliged the Italian State Energy Company (ENI) to increase its purchases of Libyan crude, after the Italians retreated from an initial position that would have forced Qadhafi to reach into Libya's foreign reserves to meet the obligations. Libyan deputy leader Abd al-Salam Jallud, who negotiated the agreement, was able to demand Italian compliance because a large percentage of the firms involved were not covered by insurance, and numerous small and medium-size Italian exporters faced serious financial difficulties.

Following the agreement, Libyan exports to Italy increased from \$421 million in the second quarter of 1982 to \$766 million in the fourth quarter, and the debt apparently began to be paid off.

Military Trade Relations

Libya has provided a lucrative market for Italian arms manufacturers.

Despite US concerns about enhancing Libyan capabilities, the Italians in the past consistently justified their arms supply relationship with Libya by arguing that it offered an alternative to the Soviets, provided further leverage to "moderate" Qadhafi, and was important to Italian industry.

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1977 the Italian oil company AGIP, ENI's exploration component that has a small onshore concession in Libya, discovered several enormous oilfields in waters northwest of Tripoli that could contain recoverable reserves of 5 billion barrels or more of oil. In return for developing and exploiting this area, AGIP will receive 19 percent of future production under its agreement with the Libyan National Oil Company. In 1982 a construction contract was awarded to ENI's engineering subsidiary, Snamprogetti, for a 30-well, 150,000-barrel-per-day (b/d) platform in one of the offshore areas, the Bouri oilfield. Initial output is scheduled for 75,000 b/d by 1986, and four additional platforms and a gas injection program planned for later years could raise Bouri production to over 600,000 b/d. At this rate, Italy's equity share would total more than 100,000 b/d. Other fields may be developed in later years, offering Italy even larger shares of production and construction contracts.

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Italian firms are additionally involved in the growing Libyan petrochemical sector. Press reports indicate that most of the work at the Ras Lanouf petrochemicals complex is undertaken by Italian companies, including a 220,000-b/d refinery being built by the Saipem firm at a cost of \$40 million. Bids for major new ammonia and urea plants to be constructed at Surt have been announced, and Italian firms are competing for those contracts.

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The Libyans have been unable to acquire significant Italian assistance for their nuclear energy program. Wary of Qadhafi's motives, the Italians have avoided cooperative activities in the nuclear field, but Libyan attempts to promote cooperation undoubtedly will continue.

**Petroleum Development:
More Libyan Enticements**

The development of Libya's petroleum sector also has brought two countries together.

We believe that the combination of Libya's need for Western technology and Italy's interest in obtaining what could be a substantial return on its investment will produce a cooperative relationship in this area for the foreseeable future.

In the petroleum sector, we believe that a mutually advantageous situation will continue to exist between Libya and Italy. Qadhafi probably would not expel Italian oil workers and technicians, because Libya requires their expertise, especially in offshore development. At the same time, however, the Italians have a substantial interest in maintaining cooperative relations over the long term, as offshore operations will extend into the 1990s and beyond. Billions of dollars are involved, as well as a potentially substantial source to meet some of Italy's future oil needs.

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Involvement in the development of Libya's offshore oilfields provides a significant incentive for Italy to maintain good relations with the Libyan regime. In

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Negative Leverage:**Italian Concern and Qadhafi's Revenge**

Italian governments also attempt to maintain as normal a relationship as possible with Qadhafi for reasons that have little to do with commercial interests. As one Italian Ministry of Foreign Affairs official told the US Embassy, Italy must recognize that there are "negative advantages" to dealing with Qadhafi which involve keeping the Libyan leader from committing acts harmful to Italy that he could pursue if relations deteriorate. Qadhafi possesses the capability to threaten Italy and its interests in several ways and has not hesitated to take advantage of his position as a "threat from the south."

We believe that Qadhafi probably derives special satisfaction from his efforts to bully the Italians because of Libya's experience under Italian colonial rule. Pacification was a brutal process in Libya, where indiscriminate bombing, mustard gas, and concentration camps were among methods employed by the Italians to subdue a determined population. In the end, the Italians killed or were indirectly responsible for the deaths of half of Libya's population. Additionally, Qadhafi's personal background is a factor: his father was a Bedouin who reportedly was a hero in the 1915 battle of Qasr bu Hadi against the Italians, and his tribe never joined the ranks of the "submitted" tribes and is still considered fiercely nationalistic and symbolic of anticolonialism.

The Libyan leader's rhetoric often recalls Italy's colonialist past. He sometimes has referred to Italian officials as fascists and recently condemned Libya's former monarch, Idriss al-Sanussi, as an "agent of Britain and the United States and servant of the Italians." Jallud's behavior during his visits to Rome, described by Italian officials as "rude and cocky," is indicative of the contemptuous attitude that the Libyan regime sometimes displays toward Italy. In our judgment, Qadhafi's burning hatred of imperialism and colonialism stems at least partly from Libya's bitter experience under colonial rule, and whenever possible he will attempt to use any leverage that Libya possesses to intimidate the Italians.

The Military Threat

Qadhafi frequently has criticized NATO nuclear installations in southern Italy. During his visit to Romania in January 1983, for example, Qadhafi

publicly warned that Libya "cannot regard apathetically attempts to install some rocket bases in Italy," according to the US Embassy in Bucharest. Qadhafi's most extreme rhetoric followed the clash in July 1981 between US Navy F-14s and Libyan SU-22s in the Gulf of Sidra, when he threatened to destroy the NATO bases if the United States again "attacked" the Gulf.

Italian defense officials take the Libyan threats seriously, according to the US Defense Attache in Rome, and are worried that their air defenses in the south are inadequate for the defense of national, US, and NATO military installations in Sicily. They express concern about an incident that occurred in August 1982, when two unmarked fighter aircraft—believed by the Italians to be Libyan—were reported to have overflown Sicily near Comiso, where a base to house US ground-launched cruise missiles is under construction. Italian suspicion that the mission of the flight was either reconnaissance and photography of Comiso or a test of Italian reaction to such an intrusion.

We believe that while Qadhafi's saberrattling will not be translated into military action against the Italians, they continue to have concerns that Qadhafi's periodic confrontations with the United States might provoke some form of Libyan retaliation. Italian officials repeatedly ask US representatives for substantial advance warning of US naval exercises in the area. They have not asked that these exercises be canceled or curtailed.

Libyan Investment in Italy

The controversial issue of Libyan investment activities in Italy has received a great deal of attention in the Italian press. Libya's 13.6-percent participation in Fiat's capital, which, according to Embassy reporting, constitutes the largest single Arab holding in Italy, is by far the most publicized of these investments. In our judgment, both Qadhafi and the Italians probably view the Fiat investment, which made the Libyan Government a business partner with the prominent Agnelli family, as a boost for Libya's prestige and influence in Italy.

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Press and Embassy reporting note significant Libyan investment in Sicily and the small island of Pantelleria in agriculture, real estate, fishing, and tourism.

Businessman Michele Papa, [REDACTED]

[REDACTED] has been provided with Libyan funds for several years to use in such projects as the construction of Sicily's first mosque in Catania, according to the US Consulate in Palermo. In late 1981 the Consulate reported that the Libyan Ambassador in Rome paid a visit to Sicily, stressing the desirability of deeper cultural and commercial relations and suggesting to the mayor of Palermo that Libyan wealth could be available for his city. [REDACTED]

The Libyans have attempted to buy access to the Italian media. They effectively control, through the office of the Libyan news agency in Rome, a private television station that since 1979 has broadcast a number of pro-Qadhafi programs and several discussions about his Green Book. [REDACTED]

Libyan Terrorism and the Threat to Italians in Libya

Terrorism has been one of Qadhafi's bluntest instruments to project his power for several years, and Italy has not been spared exposure to the activities of Libyan "hit squads." [REDACTED]

[REDACTED] Italian public opinion was outraged, but the Libyan People's Bureau in Rome, echoing Qadhafi, reacted defiantly by threatening "liquidation of exiles who refused to return to Libya" and declaring that "governments that protect these thieves and criminals become their accomplices." [REDACTED]

During the Italian crackdown on the assassination campaign in 1980, however, Qadhafi moved to retaliate by striking at Italians working in Libya, whose

vulnerable position is of constant concern to Rome. Whenever a Libyan was detained in Italy, Tripoli would reciprocate by harassing and arresting Italian citizens in Libya. [REDACTED]

[REDACTED] More recently, the Italians again raised with US Embassy officials the issue of possible Italian "hostages" in Libya, following US military maneuvers in February 1983 designed to deter Qadhafi's planned overthrow of the Sudanese Government. [REDACTED]

Italy probably will continue its pattern of reacting firmly but quietly if Libyan assassination teams reappear in Italy, in our judgment. Qadhafi will not hesitate to again exploit the vulnerability of Italians in Libya, and officials in Rome are painfully aware that this option remains open. [REDACTED]

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and condemnation of the "influence of the Americans" in Italy. Libyan frustration and anger in this regard were reflected most recently by a propaganda attack on Italian Foreign Minister Colombo, who had defended US military maneuvers in February 1983 designed to deter Qadhafi's plans to overthrow the Sudanese Government. [REDACTED]

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At the same time, however, the US Embassy in Rome has noted that the Italians view cooperative relations with Libya as a normal outgrowth of the various factors that bind the two countries. US pressure on the Qadhafi regime is therefore viewed with little enthusiasm by Italian officials, who have repeatedly stressed that they must live with Qadhafi for better or worse. We believe that the Italians will continue to criticize what they perceive as a lack of Italian-US consultations about Libya and will also resist joining in economic sanctions aimed at Tripoli unless the Libyans directly threaten Italy's vital interests. [REDACTED]

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For his part, Qadhafi will undoubtedly pursue his efforts to separate Italy—and, by extension, all of Western Europe—from the United States. He previously placed the blame for strains in Libyan-Italian relations on excessive "US political and economic influence" and could return to this theme at any time for propaganda purposes. [REDACTED]

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Implications for the United States

Italy remains a firm friend and ally of the United States, regardless of Qadhafi's threatening statements

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We believe that he will continue to use Libyan leverage to try to discredit the United States and offset US policy interests in Italy. As deployment of US cruise missiles at Comiso approaches, for example, Qadhafi's voice will increasingly join Soviet propaganda in condemning NATO's planned missile modernization program and encouraging the European peace movement. While the US Embassy in Rome recently reported that there is currently no terrorist threat to Comiso, concern persists that Libyan-backed operatives could incite antideployment demonstrations [redacted]

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Outlook

In our judgment, there is little likelihood that any major changes will occur in the basically cooperative nature of Libyan-Italian relations. The links that exist between the two countries have been strong enough to endure Qadhafi's behavior and probably will continue to do so in the absence of what the Italians would consider unacceptable activity—severe harassment of Italians in Libya, for example. Cooperative relations may continue in spite of Qadhafi rather than because of him, but the geographic, economic, political, and historical factors that bind the two countries will transcend the problems produced by Libya's current regime or any successor. [redacted]

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We also believe that Qadhafi remains convinced of the efficacy of his "Italian policy" of threat and enticement and therefore will continue to employ it in his relations with the Italians. Rome's position that it has no choice but to deal with Qadhafi has given the Libyan leader sufficient leeway to continue to exploit the relationship, whether through inducement or intimidation. For Qadhafi, Italy will continue to be a hedge against total isolation in the West. [redacted]

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